INKUBIS: Jurnal Ekonomi dan Bisnis
Volume 8, Issue 4, 3747-3762
e_ISSN: 2775-3913
https://inkubis.polteksci.ac.id/index.php/ink/index
DOI: doi.org/10.59261/inkubis.v8i4.559

Capital Expenditure, Regional Revenue, Financial Performance, and Economic Growth in West Bandung Regency

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Article Info:

Article history:
Received: September 22, 2026
Revised: October 12, 2026
Accepted: October 27, 2026
Available Online: November 27, 2026

Keywords:
Capital Expenditure;
Economic Growth;
Fiscal Decentralization;
Path Analysis;
Regional Financial Performance;
Regional Revenue

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Abstract

Background: Fiscal decentralization expands local fiscal authority, but larger revenue and capital expenditure do not automatically produce economic growth when fiscal independence and financial management remain weak.
Objective: This study examines the effects of Capital Expenditure and Regional Revenue on Regional Financial Performance and Economic Growth and tests the mediating role of Regional Financial Performance in West Bandung Regency.
Methods: An explanatory quantitative design used 40 quarterly observations for 2016–2025 from official regional financial reports and statistical publications. Descriptive statistics and path analysis in EViews were used to estimate direct and indirect associations among the variables.
Results: Capital Expenditure had a negative significant direct association with Economic Growth ($\beta = -0.535$; $p = 0.006$), whereas Regional Revenue was not significant ($\beta = -0.133$; $p = 0.430$). Capital Expenditure ($\beta = 0.641$; $p < 0.001$) and Regional Revenue ($\beta = 0.329$; $p < 0.001$) were positively associated with Regional Financial Performance, which was positively associated with Economic Growth ($\beta = 0.521$; $p = 0.021$). The indirect effect of Capital Expenditure through Regional Financial Performance was significant ($\beta = 0.333$; $p = 0.028$), while the indirect effect of Regional Revenue was not significant at the 5% level ($\beta = 0.171$; $p = 0.055$).
Conclusion: Fiscal resources generate stronger development benefits when translated through effective, accountable, and performance-oriented financial management. The findings support a performance-based fiscal transformation framework in which Regional Financial Performance functions as a key mechanism linking fiscal capacity to regional economic outcomes.

To cite this article: Purnomo, H. B., Maryani, D., Sartika, I., & Ruhana, F. (2026). Capital expenditure, regional revenue, financial performance, and economic growth in West Bandung Regency. *INKUBIS: Jurnal Ekonomi dan Bisnis, 8*(4), 3747–3762. https://doi.org/10.59261/inkubis.v8i4.559

INTRODUCTION

Fiscal decentralization grants subnational governments wider discretion in mobilizing and allocating public resources for service delivery and development. The developmental value of that authority, however, depends on how effectively revenue is managed and expenditure is directed toward productive uses. Capital expenditure can expand infrastructure and public assets that support connectivity, productivity, and local economic activity, whereas Local Own-Source

Revenue (PAD) indicates the extent to which a region can finance its priorities from its own fiscal base. Recent evidence suggests that decentralization produces stronger outcomes when revenue mobilization is accompanied by disciplined allocation to productive sectors (Mubarok et al., 2022; Puspitasari et al., 2023). International experience similarly shows that greater subnational fiscal authority alone does not guarantee efficient budgeting, sound governance, or better development outcomes. The contribution of capital expenditure therefore depends on planning quality, implementation, asset utilization, and the government's ability to maintain the assets created, which provides the rationale for treating Regional Financial Performance as an intervening mechanism.

West Bandung Regency as an autonomous region established based on Law Number 12 of 2007 has economic potential in the tourism, agriculture, livestock, and other local economic activities sectors. However, this potential has not been fully followed by strengthening fiscal capacity and optimal economic growth. Financial data for West Bandung Regency for the 2016–2025 period suggests that the realization of capital expenditure is relatively low compared to operating expenditure, with an average of around 17.55%. At the same time, central government transfers and inter-regional transfers still dominate regional revenue with an average of 75.82%, while the contribution of PAD to regional revenue averages only around 21.06%. Economic growth also shows inconsistent development with an average of around 4.38% per year. These conditions indicate that there are still problems in optimizing the revenue structure, allocating productive spending, and achieving regional economic growth. West Bandung Regency is Accordingly analytically relevant not merely because of its sectoral potential, but because it combines a relatively low capital-expenditure share, substantial dependence on intergovernmental transfers, and modest PAD contribution, creating a useful setting for examining how fiscal capacity is converted into development outcomes. The low capital-expenditure share matters because a smaller allocation to productive assets can limit the formation and upgrading of infrastructure that supports connectivity, service capacity, and private-sector productivity. At the same time, transfer dependence should not be interpreted as an inherent fiscal weakness; rather, a high reliance on transfers may narrow the discretionary policy space available to local government when locally generated revenue remains limited.

From a theoretical standpoint, productive capital spending should expand public-service capacity and strengthen local fiscal performance. Mubarok et al. (2022) reported a positive and significant association between capital expenditure and local government financial performance. Firmansyah et al. (2024) reached a similar conclusion regarding capital expenditure, while also showing that heavy fiscal dependence can weaken financial performance. Together, these studies imply that fiscal health is shaped not merely by how much is spent, but by the composition of expenditure and the region's capacity to reduce excessive reliance on intergovernmental transfers.

Even so, the association between regional revenue, capital expenditure, and economic growth continues to display inconsistent empirical results. Puspitasari et al. (2023) reported that capital expenditure is positively and significantly associated with economic growth in the Gerbangkertosusila area. Research by Hadiana et al. (2025) using a spatial econometric approach also suggests that regional revenue and capital expenditure have a significant relationship with economic growth in Indonesia. Conversely, Zulvan and Purbasari (2024) reported that PAD affects economic growth, but capital expenditure does not show a significant effect. These differences in results indicate that increases in revenue or capital expenditure do not necessarily produce economic growth, because their effectiveness can depend on the quality of management and financial performance of local governments.

Earlier studies have generally examined regional revenue, capital expenditure, financial performance, and economic growth in separate relationships. Although these variables are conceptually connected, evidence that evaluates them within one integrated mechanism remains limited, particularly for West Bandung Regency. The unresolved issue is therefore not only whether revenue and capital expenditure are directly related to growth, but also whether their developmental influence operates through the quality of regional financial performance.

The study addresses this gap by specifying an integrated model in which Regional Financial Performance serves as the intervening mechanism between fiscal inputs and economic

growth in West Bandung Regency over 2016-2025. This formulation allows the analysis to distinguish direct fiscal associations from the pathway that operates through financial management performance. The contribution is therefore mechanism-oriented: it evaluates whether additional fiscal resources and development expenditure become more consequential for growth when they are first translated into stronger regional financial management.

Accordingly, the study examines the relationships of capital expenditure and regional revenue with Regional Financial Performance and economic growth, and evaluates whether Regional Financial Performance mediates the respective fiscal-growth relationships in West Bandung Regency. The evidence is intended to enrich regional public-finance research and to inform local policy on revenue mobilization, capital-budget quality, financial management, and sustainable regional growth.

METHOD

An explanatory quantitative design was employed using secondary observational data. The analysis tested the hypothesized relationships among fiscal variables, Regional Financial Performance, and economic growth without treating the resulting coefficients as proof of causality. The dataset comprised 40 quarterly observations covering 2016Q1–2025Q4 and included capital expenditure, regional revenue, Regional Financial Performance, and economic growth in West Bandung Regency.

This study involved four variables, namely capital expenditure (X1) and regional revenue (X2) as independent variables, Regional Financial Performance (Z) as an intervening variable, and regional economic growth (Y) as the dependent variable. Capital expenditure was operationalized based on the proportion of capital expenditure allocated to total expenditure. Regional revenue included Local Own-Source Revenue (PAD), transfer revenue, and other legitimate regional revenue.

Regional Financial Performance was operationalized using five indicators: the degree of decentralization, financial dependence, financial independence, PAD effectiveness, and the contribution of Regional-Owned Enterprises (BUMD). For the path analysis, regional economic growth (Y) was operationalized specifically as the quarterly growth rate of Gross Regional Domestic Product (GRDP) at constant prices. GRDP per capita and expenditure-side GRDP were used only as descriptive contextual information and were not combined as indicators of the dependent variable. The operationalization of the variables was developed with reference to the concepts proposed by (Asri, 2022; Otonomi Dan Manajemen Keuangan Daerah, 2002).

The research data were obtained from official government documents concerning capital expenditure, regional revenue, and regional financial reports, as well as economic growth data published by the Central Statistics Agency (BPS) for the 2016–2025 period. The use of financial report data as a source of secondary data was consistent with the quantitative research approach in the field of accounting (Sugiyono, 2015, 2023).

Because the study used official secondary fiscal and macroeconomic data rather than a multi-item survey instrument, instrument validity and internal-consistency reliability tests were not applied. Instead, data quality was assessed based on source authenticity, completeness, consistency of units and periods, and cross-checking among the Budget Realization Reports, BKAD records, and BPS statistical publications.

The analytical dataset was compiled exclusively from officially published or institutionally authorized records. The data series were reconciled by quarter and fiscal year, checked for missing observations and inconsistent units, and matched across sources before estimation. This procedure was considered more appropriate for administrative secondary data than Pearson item-validity testing or Cronbach's alpha, which are primarily designed for multi-item measurement instruments.

The study population comprised the available quarterly fiscal observations of West Bandung Regency during the post-establishment period for which sufficiently disaggregated regional financial records were available. The analytical sample consisted of 40 quarterly observations covering 2016Q1–2025Q4. This ten-year period was selected purposively because it provided a recent, continuous, and institutionally comparable data series following the earlier administrative transition period, while also encompassing pre-pandemic, pandemic, and post-

pandemic fiscal conditions.

Data collection was conducted through document review and interviews. The document review covered the Budget Realization Reports (LRA), West Bandung Regency in Figures, regional vision and mission statements, local government work programs, and West Bandung Regency Strategic Plan documents for the 2016–2025 period.

Interviews were conducted to obtain additional information regarding capital expenditure management, regional revenue, financial performance, and economic growth conditions. According to Esterberg in (Sugiyono, 2008, 2023), an interview is a process of exchanging information and ideas through question-and-answer interactions to develop an understanding of a particular topic. This study employed unstructured interviews with parties involved in budget management, regional revenue administration, and the Budget Committee of the West Bandung Regency Regional People's Representative Council (DPRD). The interview findings were used as supporting information to deepen the interpretation of the quantitative analysis results.

Data analysis was conducted using descriptive statistical analysis and verificative analysis. Data analysis is a systematic process of organizing and interpreting data to enhance understanding of the phenomenon under investigation (Stalmeijer & Varpio, 2026).

Descriptive statistics were used to characterize the evolution of capital expenditure, regional revenue, financial performance, and economic growth. Additionally, verificative analysis was employed to examine the direct and indirect effects among the research variables.

The hypotheses were tested using path analysis because the research model involved relationships among variables that included both direct and indirect effects. Data processing was performed using EViews version 9. The analytical model was developed into two path equations:

$$Z = a + p1X1 + p2X2 + e1$$
$$Y = b + p3X1 + p4X2 + p5Z + e2$$

The indirect effects of the independent variables on economic growth through financial performance were calculated by multiplying the path coefficient from each independent variable to the intervening variable by the path coefficient from the intervening variable to economic growth. Additionally, the total effect was calculated as the sum of the direct and indirect effects.

The study was conducted in West Bandung Regency, with fiscal data obtained primarily from the Regional Financial and Asset Management Agency (BKAD) and economic data obtained from BPS for the 2016–2025 period. West Bandung Regency was selected as the case study because its post-autonomy fiscal structure was characterized by fluctuating capital expenditure, a high proportion of transfer revenue, a relatively modest contribution from PAD, and uneven economic growth. These characteristics made the regency substantively relevant for examining whether financial performance mediated the translation of fiscal resources into development outcomes.

RESULTS AND DISCUSSION

Results

Regional Financial Management of West Bandung Regency

Regional financial management is part of regional government management which includes planning, budgeting, implementation, administration, reporting, accountability, and financial supervision. This management is not only oriented toward administrative compliance but must also be directed at realizing public services, development, community empowerment, and improving welfare.

Based on the initial research data, the realization of capital expenditure of West Bandung Regency over 2016–2025 is relatively smaller compared to operating expenditure, with an average proportion of around 17.55%. This pattern suggests that most fiscal resources are still used to finance government operational activities and not for the formation of public assets and infrastructure.

From the revenue side, central government transfers and inter-regional transfers are still the dominant source, with an average of around 75.82% of regional revenue. By contrast, the contribution of PAD to regional revenue averages 21.06%. These conditions indicate that the

degree of fiscal independence of West Bandung Regency is still limited and the administration of regional government still has a relatively high dependence on transfer revenue.

The average realization of PAD against the target reaches around 99.01%. This figure suggests that PAD revenue almost meets the set target. However, the effectiveness of achieving the PAD target does not always indicate a high level of regional independence because the target value can be set conservatively and the contribution of PAD to total regional revenue is still relatively low.

Economic growth of West Bandung Regency over the observation period averaged around 4.38% per year. Its development tends to fluctuate, mainly due to changes in economic activity, the COVID-19 pandemic, national fiscal policy, investment development, community purchasing power, and the dynamics of the tourism, agriculture, trade, and processing industry sectors.

Development of capital expenditure

The evolution of capital expenditure of West Bandung Regency across 2016–2025 is presented in the following table.

Table 1

Development of capital expenditure

Year	Capital Expenditure (Rp billion)	Change (Rp billion)	Growth (%)
2016	355.712	--	--
2017	400.093	44.381	12.48
2018	264.540	-135.553	-33.88
2019	338.001	73.461	27.77
2020	465.457	127.456	37.71
2021	346.129	-119.328	-25.64
2022	341.546	-4.583	-1.32
2023	409.681	68.135	19.95
2024	401.735	-7.946	-1.94
2025	301.416	-100.319	-24.97
Total	3,624.310		
Average	362.431		

Source: BKAD West Bandung Regency, data processed (2026)

As reported in the table, the realization of capital expenditure of West Bandung Regency over 2016–2025 displays substantial year-to-year fluctuation. Total capital expenditure over ten years reached Rp3,624.310 billion or around Rp3.624 trillion, with an average of Rp362.431 billion per year.

The lowest realization of capital expenditure occurred in 2018, at Rp264.540 billion, while the highest realization occurred in 2020, at Rp465.457 billion. Consequently, the range between the highest and lowest values reached Rp200.917 billion. The magnitude of this range indicates a relatively high change in the allocation and realization of capital expenditure over the observation period.

In 2017, capital expenditure increased by Rp44.381 billion or 12.48% compared to the previous year. However, in 2018 there was a decrease of Rp135.553 billion or 33.88%. This decrease was the relatively largest decrease over the observation period.

In 2019, capital expenditure increased again by 27.77% to Rp338.001 billion. The increase continued in 2020 by 37.71% so that the realization of capital expenditure reached Rp465.457 billion. 2020 was the year with the highest nominal capital expenditure as well as the largest annual growth over the observation period.

After reaching its highest value in 2020, capital expenditure fell by 25.64% in 2021 and fell again by 1.32% in 2022. In 2023, capital expenditure increased by 19.95% to Rp409.681 billion. However, this increase did not continue because in 2024 there was a decrease of 1.94% and in 2025 it fell again by 24.97% to Rp301.416 billion.

When compared between the beginning and end of the period, capital expenditure fell from Rp355.712 billion in 2016 to Rp301.416 billion in 2025. Cumulatively, this decrease

amounted to Rp54.296 billion or 15.26%. This pattern suggests that over a longer horizon, a sustainable trend of increasing capital expenditure has not yet been formed.

Fluctuations in capital expenditure may arise from changes in fiscal capacity, regional development priorities, central government transfer policies, budget refocusing, the capacity of regional apparatus organizations to carry out procurement, and changes in development needs. The COVID-19 pandemic period also needs attention because there was a change in budget priorities, especially for health handling, social protection, and economic recovery.

Although the highest realization occurred in 2020, the increase in capital expenditure in that year cannot be directly assumed to increase economic growth. Part of the budget may be related to the government's response to the pandemic condition, while the benefits of fixed assets are generally only felt after construction is completed and the assets begin to be utilized.

Development of regional revenue

regional revenue is all rights of the local government recognized as adding to net wealth value in one fiscal year. regional revenue of West Bandung Regency comes from Local Own-Source Revenue, transfer revenue, and other legitimate regional revenue.

The evolution of regional revenue of West Bandung Regency over 2016–2025 is presented in the following table.

Table 2
Development of regional revenue

Year	Regional Revenue (Rp billion)	Change (Rp billion)	Growth (%)
2016	2,242.25	--	--
2017	2,722.71	480.46	21.43
2018	2,601.96	-120.75	-4.44
2019	2,902.84	300.88	11.56
2020	2,530.17	-372.67	-12.84
2021	2,804.25	274.08	10.83
2022	2,771.22	-33.03	-1.18
2023	3,048.56	277.34	10.01
2024	3,410.49	361.93	11.87
2025	3,394.86	-15.63	-0.46
Total	28,429.31		
Average	2,842.93		

Source: BKAD West Bandung Regency, data processed (2026)

As reported in the table, regional revenue of West Bandung Regency over 2016–2025 generally follows an upward trend although fluctuating. regional revenue increased from Rp2,242.25 billion or around Rp2.242 trillion in 2016 to Rp3,394.86 billion or around Rp3.395 trillion in 2025.

Taken together, regional revenue increased by Rp1,152.61 billion or around Rp1.153 trillion over the observation period. This increase is equivalent to 51.40% compared to the value at the beginning of the period. On a compound basis, the average growth is around 4.72% per year.

The lowest regional revenue occurred in 2016, at Rp2,242.25 billion. The highest revenue occurred in 2024, at Rp3,410.49 billion. The difference between the highest and lowest values reached Rp1,168.24 billion. This shows an increase in regional revenue capacity over the observation period.

In 2017, regional revenue increased by Rp480.46 billion or 21.43%. This increase was the highest annual growth over the observation period. In 2018, regional revenue fell 4.44%, then increased again by 11.56% in 2019.

In 2020 there was a decrease of Rp372.67 billion or 12.84%. This decrease was the largest decrease over the observation period and was related to fiscal pressure and reduced economic activity due to the COVID-19 pandemic. Changes in transfer revenue, tax and levy relaxation, and reduced tourism, trade, and service activities likely also affected regional revenue.

In 2021, regional revenue increased again by 10.83% as part of the fiscal and economic

recovery process. Revenue experienced a slight decrease of 1.18% in 2022, then increased by 10.01% in 2023 and 11.87% in 2024.

In 2025, regional revenue reached Rp3,394.86 billion, slightly lower than 2024. The decrease was only Rp15.63 billion or 0.46%, so nominally the regional revenue capacity was relatively stable.

Development of Regional Financial Performance

Regional Financial Performance describes the capacity of local governments to manage fiscal resources effectively, efficiently, independently, and responsibly. In the present study, Regional Financial Performance is measured through the degree of decentralization, financial dependence, and regional financial independence.

The dominance of transfer revenue suggests that the financial dependence of West Bandung Regency is still relatively high. Conversely, the contribution of PAD which averages 21.06% suggests that the degree of decentralization and fiscal independence still needs to be improved.

This condition does not merely indicate poor regional financial management because transfers are a legitimate part of the central and regional financial relations system. However, increasing independence is still needed so that local governments have broader fiscal space in financing development priorities based on local community needs.

Development of Regional economic growth

Regional economic growth reflects changes in the economic capacity of West Bandung Regency in producing goods and services. This growth is indicated by changes in Gross Regional Domestic Product at constant prices.

The average economic growth of West Bandung Regency over the observation period was around 4.38%. Its development is not always consistent with the increase in regional revenue or capital expenditure. This suggests that economic growth is not only influenced by local government fiscal policy, but also by household consumption, private investment, inter-regional exports and imports, labor, productivity, inflation, national conditions, and external shocks.

Economic contraction during the pandemic and the recovery process after the pandemic also need to be considered in interpreting the relationships between variables. These events can cause increases or decreases in capital expenditure and regional revenue to not directly produce changes in economic growth in the same period.

Path Analysis Results

Path analysis is used to estimate the direct and indirect associations of capital expenditure and regional revenue with economic growth through Regional Financial Performance. Parameter estimation is carried out using the Maximum Likelihood (ML) method in EViews. ML is applied under the assumption that the model is correctly specified and that the disturbance structure is sufficiently well behaved for asymptotic estimation. Because the observations form a quarterly time series, the coefficients are interpreted cautiously as period-specific structural associations. The archived estimation output used for this manuscript does not contain complete stationarity and serial-correlation diagnostics; Accordingly, the study does not claim long-run equilibrium or strict temporal causality, and this limitation is acknowledged in interpreting the results.
The research model consists of two structural equations:

$$Z = \beta_1 X_1 + \beta_2 X_2 + \epsilon_1$$
$$Y = \beta_3 X_1 + \beta_4 X_2 + \beta_5 Z + \epsilon_2$$

Note:
X1 = capital expenditure;
X2 = regional revenue;
Z = Regional Financial Performance;
Y = Regional economic growth;
ε = other factors outside the model.

Path Coefficients

Table 3
Summary of Path Analysis Results

Relationship between variables	Coefficient	S.E.	z-value	p-value	95% confidence interval	Description
Capital Expenditure → Regional Financial Performance	0.641	0.074	8.677	<0.001	0.496–0.785	Positive and significant
Regional Revenue → Regional Financial Performance	0.329	0.094	3.496	<0.001	0.144–0.513	Positive and significant
Regional Financial Performance → Economic Growth	0.521	0.225	2.311	0.021	0.079–0.962	Positive and significant
Capital Expenditure → Economic Growth	-0.535	0.194	-2.762	0.006	-0.914–-0.155	Negative and significant
Regional Revenue → Economic Growth	-0.133	0.169	-0.790	0.430	-0.464–0.197	Not significant

Source: Research data processing results (2026)

Based on these results, the first structural equation can be written:

$$Z = 0.641X_1 + 0.329X_2 + \varepsilon_1$$

The second structural equation can be written:

$$Y = -0.535X_1 - 0.133X_2 + 0.521Z + \varepsilon_2$$

The largest coefficient in the first equation is the influence of capital expenditure on Regional Financial Performance, namely 0.641. This suggests that capital expenditure is a relatively more dominant variable in explaining Regional Financial Performance compared to regional revenue.

In the second equation, Regional Financial Performance has a positive coefficient of 0.521, while capital expenditure has a negative direct effect of -0.535. regional revenue has a negative coefficient of -0.133, but this effect is not significant.

Coefficient of Determination

Table 4
Coefficient of Determination Values

Endogenous variable	R^2	Unexplained variation
Regional Financial Performance	0.622 or 62.2%	37.8%
Regional Economic Growth	0.141 or 14.1%	85.9%

The R^2 value of Regional Financial Performance of 0.622 suggests that 62.2% of the variation in Regional Financial Performance may be interpreted through capital expenditure and regional revenue. 37.8% is explained by other factors outside the model, such as apparatus capacity, budget planning, internal control systems, institutional quality, asset management, budget realization rate, and transfer policy.

The R^2 value of economic growth of 0.141 suggests that capital expenditure, regional revenue, and Regional Financial Performance are only able to explain 14.1% of the variation in economic growth. The remaining 85.9% is explained by other factors outside the model.

The low R^2 value of economic growth can be understood because economic growth is a macro phenomenon influenced by many factors. Local government fiscal policy is one factor, but not the only determinant.

Indirect Effects

Table 5
Indirect Effects

Indirect relationship	Coefficient	S.E.	z-value	p-value	95% confidence interval	Description
Capital Expenditure → Financial Performance → Economic Growth	0.333	0.152	2.198	0.028	0.036–0.631	Significant
Regional Revenue → Financial Performance → Economic Growth	0.171	0.089	1.920	0.055	-0.004–0.346	Not significant at α = 5%

The indirect effect of capital expenditure on economic growth through Regional Financial Performance is 0.333 and significant at p-value 0.028. The confidence interval does not include zero. Consequently, Regional Financial Performance is proven to be a mediator in the association between capital expenditure and economic growth.

The indirect effect of regional revenue on economic growth through Regional Financial Performance is 0.171 with a p-value of 0.055. The confidence interval still includes zero. Accordingly, at the 5% significance level, Regional Financial Performance has not been proven to mediate the influence of regional revenue on economic growth.

Table 6
Total Effects

Relationship	Direct effect	Indirect effect	Total effect	p-value	Description
Capital Expenditure → Economic Growth	-0.535	0.333	-0.201	0.195	Not significant
Regional Revenue → Economic Growth	-0.133	0.171	0.038	0.813	Not significant

The total effect of capital expenditure on economic growth is -0.201 and not significant. This total effect is formed from a negative direct effect of -0.535 and a positive indirect effect of 0.333. The total effect of regional revenue on economic growth is 0.038 and not significant. The negative direct effect is almost entirely offset by the positive indirect effect through Regional Financial Performance.

Hypothesis Testing

Testing H1

H1 states that capital expenditure has a positive and significant effect on economic growth. The test results produce a coefficient of -0.535 and a p-value of 0.006. The effect is significant but has a negative direction. Consequently, H1 is rejected, because the direction of the empirical effect is opposite to the positive direction formulated in the hypothesis.

Testing H2

H2 states that regional revenue has a positive and significant effect on economic growth. The test results produce a coefficient of -0.133 and a p-value of 0.430. Consequently, H2 is rejected because regional revenue shows no statistically significant effect on economic growth.

Testing H3

H3 states that capital expenditure has a positive and significant effect on Regional Financial Performance. The test results produce a coefficient of 0.641 and a p-value <0.001. Thus, H3 is accepted.

Testing H4

H4 states that regional revenue has a positive and significant effect on Regional Financial Performance. The test results produce a coefficient of 0.329 and a p-value <0.001. Thus, H4 is accepted.

Testing H5

H5 states that Regional Financial Performance has a positive and significant effect on economic growth. The test results produce a coefficient of 0.521 and a p-value of 0.021. Thus, H5 is accepted.

Testing H6

H6 states that capital expenditure has a positive and significant effect on economic growth through Regional Financial Performance. The indirect effect produces a coefficient of 0.333 with a p-value of 0.028. Thus, H6 is accepted.

Testing H7

H7 states that regional revenue has a positive and significant effect on economic growth through Regional Financial Performance. The indirect effect produces a coefficient of 0.171 with a p-value of 0.055. Consequently, H7 is rejected at the 5% significance level.

Testing H8

H8 states that capital expenditure and regional revenue together have a positive and significant effect on Regional Financial Performance. The R^2 value of 0.622 shows that the two variables explain 62.2% of the variation in Regional Financial Performance.

However, the available output does not include the required simultaneous or Taken together-model test for the first structural equation. Accordingly, H8 is classified as not testable with the available output rather than accepted or rejected. A definitive decision requires an appropriate model-level statistic, such as the F statistic or likelihood-ratio test produced by the estimation procedure.

The significant individual paths and R^2 value provide descriptive evidence that capital expenditure and regional revenue jointly account for substantial variation in Regional Financial Performance, but they do not substitute for a formal simultaneous test. No inferential decision is Accordingly made for H8.

Testing H9

H9 states that capital expenditure and regional revenue together affect economic growth through Regional Financial Performance. The R^2 value of economic growth of 0.141 shows that all predictors in the second equation explain 14.1% of the variation in economic growth. The available output does not contain a simultaneous indirect-effect test or an Taken together model-level test sufficient to evaluate H9 as formulated. H9 is Accordingly classified as not testable with the available analysis, and no acceptance or rejection decision is reported.

Table 7
Hypothesis Testing Recapitulation

Hypothesis	Empirical conclusion	Decision
H1	Capital Expenditure has a negative and significant effect on Economic Growth	Rejected
H2	Regional Revenue has no effect on Economic Growth	Rejected
H3	Capital Expenditure has a positive and significant effect on Financial Performance	Accepted
H4	Regional Revenue has a positive and significant effect on Financial Performance	Accepted
H5	Financial Performance has a positive and significant effect on Economic Growth	Accepted
H6	Financial Performance mediates the effect of Capital Expenditure on Economic Growth	Accepted

Hypothesis	Empirical conclusion	Decision
H7	Financial Performance does not mediate the effect of Regional Revenue at α = 5%	Rejected
H8	Simultaneous effect on Regional Financial Performance requires a formal model-level test	Not testable with available output
H9	Joint indirect/overall effect on Economic Growth requires a model-level simultaneous test	Not testable with available output

Discussion

Effect of capital expenditure on economic growth

The findings indicate that capital expenditure is negatively and significantly associated with economic growth in West Bandung Regency. This finding differs from the hypothesis that predicted a positive effect.

Theoretically, capital expenditure can drive economic growth through the provision of public infrastructure that increases connectivity, lowers transaction costs, and strengthens the productivity of society and businesses. However, the economic benefits of government investment do not always appear in the same budget period due to the time lag between budget realization, completion of asset construction, and their utilization in economic activities.

The negative association found In the present study may be associated with several mechanisms that are not directly identified by the present dataset, including a time lag in asset utilization, differences in the composition of capital expenditure, year-end concentration of realization, and subsequent operating and maintenance costs. These are plausible contextual explanations rather than empirically verified causal mechanisms; Accordingly, the finding should be interpreted as showing that higher nominal capital expenditure did not coincide with higher economic growth within the observed period.

This research finding is supported by evidence from Wibisono et al. (2024), who reported that capital expenditure shows a statistically significant negative association with GRDP in district/city governments in the Bakorwil I Madiun area. Zulvan and Purbasari (2024) also showed that capital expenditure does not have a positive effect on economic growth in districts/cities in Java and Bali. Conversely, Puspitasari et al. (2023) reported that capital expenditure is positively and significantly associated with economic growth in the Gerbangkertosusila area. These differences in results indicate that the impact of capital expenditure is highly dependent on regional characteristics, research period, expenditure composition, and the effectiveness of public asset use. The divergence from studies reporting positive effects may also reflect differences in regional economic structure, observation period, post-pandemic recovery dynamics, and the productivity of the specific assets financed, which can change the speed and magnitude with which public investment is transmitted to output growth.

Consequently, in the perspective of government science, the management of capital expenditure needs to shift from a budget absorption orientation to an outcome-oriented budgeting orientation. Local governments not only need to pay attention to the amount of budget spent, but also the economic and social benefits produced.

Effect of regional revenue on economic growth

The findings indicate that regional revenue shows no statistically significant effect on economic growth. This finding suggests that an increase in local government revenue has not necessarily increased the production activity of goods and services in West Bandung Regency.

This condition may be associated with the composition and use of regional revenue rather than with transfer revenue itself. Intergovernmental transfers are a legitimate component of Indonesia's central-local fiscal system and finance essential public services. The relevant issue is whether the Taken together revenue mix, fiscal discretion, and allocation quality enable additional resources to be directed toward productive programs that stimulate regional output. Consequently, the finding should be interpreted as a distinction between revenue capacity and the productivity with which that capacity is converted into economic activity.

Recent literature also shows mixed results. Zulvan and Purbasari (2024) reported that PAD affects economic growth, while Puspitasari et al. (2023) showed that components of regional revenue

can have different effects on economic growth. By contrast, Prabawati and Indarti (2026) reported that an increase in PAD does not necessarily produce regional economic growth when the fiscal capacity has not been successfully transformed into productive economic activity.

Consequently, an increase in regional revenue needs to be followed by an improvement in the quality of budget allocation. The revenue enhancement strategy should also not only rely on increasing tax or levy rates, but on expanding the economic base, digitalizing revenue, increasing compliance, and developing productive sectors.

Effect of capital expenditure on Regional Financial Performance

The findings indicate that capital expenditure is positively and significantly associated with Regional Financial Performance with a coefficient of 0.641. This finding suggests that capital expenditure is one of the relatively strong factors in improving the capacity of local governments to carry out service and development functions.

Capital expenditure can improve financial performance if the assets produced support the efficiency of public services, the productivity of government organizations, infrastructure development, and economic activity. However, these benefits require orderly asset management from the planning, procurement, recording, utilization, maintenance, to evaluation stages.

This finding is consistent with Firmansyah et al. (2024), who reported that capital expenditure has a positive effect on local government financial performance in Indonesia. These results indicate that government investment in productive assets may reinforce fiscal capacity and government services if managed effectively. The study by Mubarok et al. (2022) also emphasizes the importance of capital expenditure as one of the factors in explaining variations in local government financial performance.

Consequently, the results of the West Bandung Regency study show that the initial benefits of capital expenditure are more visible in strengthening government capacity and performance before being fully transmitted into economic growth.

Effect of regional revenue on Regional Financial Performance

Regional revenue is positively and significantly associated with Regional Financial Performance with a coefficient of 0.329. These results indicate that an increase in revenue capacity strengthens the capacity of local governments to finance public services, development, and government administration.

This result is consistent with Maghfiroh et al. (2024), who reported that PAD has a positive effect on local government financial performance and strengthens fiscal independence. Syahputra et al. (2026) also reported that PAD is positively and significantly associated with financial performance, while high dependence on intergovernmental transfers tends to have a negative impact on regional financial performance.

These findings are relevant to the condition of West Bandung Regency which still has a relatively high dependence on transfers. Accordingly, increasing regional revenue needs to be directed at strengthening PAD through updating the tax database, digitalizing collection, optimizing asset management, improving BUMD performance, developing tourism, and expanding the regional economic base.

Effect of Regional Financial Performance on economic growth

Regional Financial Performance is positively and significantly associated with economic growth with a coefficient of 0.521. These results indicate that economic growth is not solely determined by the amount of government revenue or spending, but also by the capacity of the government to manage fiscal resources effectively and efficiently.

Good financial performance reflects the government's ability to plan revenue, set spending priorities, increase fiscal independence, control dependence on transfers, and account for budget use. Quality financial management enables public resources to produce services and development that support economic activity.

This research finding is further supported by Zein et al. (2024), who showed that a number of local government financial performance indicators, including independence and effectiveness ratios, have a significant relationship with economic growth in Banten Province. These results

confirm that the quality of fiscal management is one of the mechanisms that links budget policy with regional economic development.

Consequently, strengthening Regional Financial Performance is an important prerequisite so that revenue and spending policies are able to produce broader economic benefits.

Mediation of financial performance on the influence of capital expenditure on economic growth

The findings indicate that Regional Financial Performance mediates the influence of capital expenditure on economic growth. The direct effect of capital expenditure on economic growth is −0.535, while the indirect effect through financial performance is 0.333 and significant. The mediation pattern is classified as competitive mediation because the direct effect of capital expenditure on economic growth is significant and negative while the indirect effect through Regional Financial Performance is significant and positive. Under the mediation typology proposed by Zhao et al. (2010) and Kerr (2025), competitive mediation occurs when significant direct and indirect effects point in opposite directions. In the present study, the result suggests that capital expenditure is associated with lower contemporaneous economic growth directly, while part of its association is transmitted positively through improved Regional Financial Performance.

This result provides an interesting finding when compared to recent research. Prabawati and Indarti (2026) placed Regional Financial Performance as a mediator between fiscal capacity and economic growth, but did not find a significant mediation effect in the former Pati Residency area. The difference with the West Bandung Regency results suggests that the mechanism of financial performance mediation is very likely to be contextual and influenced by the fiscal and economic characteristics of the region. This contextual difference may arise because West Bandung's transfer dependence, capital-expenditure volatility, sectoral economic composition, and the 2016–2025 observation window differ from the institutional and temporal settings examined in other regions.

This finding consequently strengthens the argument that Regional Financial Performance acts as an institutional mechanism capable of transforming the use of fiscal resources into development outcomes.

Mediation of financial performance on the influence of regional revenue on economic growth

Regional Financial Performance has not been proven to mediate the influence of regional revenue on economic growth at the 5% significance level. The indirect effect has a positive coefficient of 0.171, but the p-value is 0.055 and the confidence interval still includes zero.

Although regional revenue has a positive effect on financial performance and financial performance has a positive effect on economic growth, the combination of the two paths is not strong enough to form a significant mediation effect.

This finding is consistent with Prabawati and Indarti (2026), who reported that Regional Financial Performance does not mediate the association between PAD and economic growth. That study confirms that an increase in fiscal capacity is not necessarily transmitted into economic growth if fiscal management has not been integrated with the strategy for developing the region's leading economic sectors.

The condition of West Bandung Regency can also be influenced by the still dominant transfer revenue so that an increase in regional revenue does not fully reflect an increase in regional economic independence. Moreover,

Research Findings

Taken together, the research produces several important findings. First, an increase in capital expenditure does not necessarily increase economic growth so that the quality, composition, timing of realization, and utilization of assets become factors that need attention. The finding regarding the non-automatic nature of fiscal capacity increases producing economic growth is also found in recent research in several Indonesian local governments (Prabawati & Indarti, 2026; Wibisono et al., 2024).

Second, regional revenue is able to strengthen financial performance, but has not yet

provided a significant direct effect on economic growth. This confirms that revenue capacity must be translated into productive management and spending.

Third, Regional Financial Performance is an important variable that has a positive effect on economic growth. Consequently, the quality of fiscal governance is an important part of explaining the success of regional economic development.

Fourth, Regional Financial Performance exhibits a competitive mediation pattern in the association between capital expenditure and economic growth because the significant direct and indirect effects have opposite signs, while mediation in the association between regional revenue and economic growth is not significant at the 5% level.

Fifth, the R^2 value of economic growth of 14.1% suggests that most of the variation in economic growth of West Bandung Regency is explained by other factors outside the model, such as private investment, household consumption, labor, productivity, inflation, technology, and national economic conditions.

Development of Research Result Concepts

Drawing on the empirical results, the association between regional fiscal policy and economic growth is not automatic. capital expenditure and regional revenue as forms of fiscal capacity need to be transformed through Regional Financial Performance in order to provide development benefits.

This finding is supported by evidence from recent literature showing that increases in PAD and government spending need to be followed by strengthening fiscal independence and budget management effectiveness to improve local government performance (Firmansyah et al., 2024; Maghfiroh et al., 2024; Syahputra et al., 2026). Conceptually, this relationship can be formulated as:

Fiscal Resources → Regional Financial Performance → Economic Development Outcomes

This concept can be called performance-based fiscal transformation, namely a condition when an increase in fiscal resources is only able to produce economic benefits if transformed through effective, efficient financial management oriented toward results.

This finding develops the concept of performance-based fiscal transformation, namely that an increase in budget will only produce economic benefits if transformed through financial management that is effective, efficient, independent, on target, and results-oriented. The research finding model can be expressed in figure 1.



Figure 1. Research finding model

The novelty of the research does not only lie in the combination of four variables, but mainly in the discovery of Regional Financial Performance as a mechanism that changes the influence of capital expenditure from negative directly to positive indirectly.

CONCLUSION

The evidence shows that the link between fiscal resources and economic growth in West Bandung Regency is mediated by the quality of financial management rather than operating automatically. Capital expenditure has a negative direct association with economic growth but a positive association with Regional Financial Performance. Regional revenue also strengthens Regional Financial Performance, although its direct relationship with economic growth is not statistically significant. Regional Financial Performance itself is positively related to growth and carries a significant portion of the capital-expenditure pathway. These findings directly address the study objective by identifying financial performance as a mechanism through which fiscal resources may be converted into regional development outcomes.

Conceptually, the results support a performance-based fiscal transformation perspective in which additional fiscal capacity is more likely to yield development benefits when budgeting, asset utilization, accountability, and spending priorities are managed effectively. For West Bandung Regency, the practical implication is to improve the productivity of capital expenditure, strengthen PAD development, enhance asset management, and deepen performance-based budgeting rather than focusing primarily on expenditure absorption. The study remains constrained by its single-region setting, 40 quarterly observations, limited explanatory power for economic growth, and incomplete model-level diagnostics for H8 and H9. Future studies should extend the analysis to broader regional panels or longer time horizons, incorporate investment, labor, productivity, and sectoral structure, and apply time-series or panel mediation techniques with complete diagnostic and robustness testing.

ACKNOWLEDGEMENT

The authors would like to express their sincere gratitude to the Regional Financial and Asset Management Agency (BKAD) of West Bandung Regency and the Central Statistics Agency (BPS) for providing access to the financial, fiscal, and regional economic data used in this study. The authors also extend their appreciation to the Institut Pemerintahan Dalam Negeri (IPDN) for its academic support and constructive guidance throughout the research process. Appreciation is also addressed to all relevant parties who provided information and insights regarding regional financial management in West Bandung Regency. Their support contributed significantly to the completion of this research.

AUTHOR CONTRIBUTION STATEMENT

Heru Budi Purnomo: Conceptualization, data collection, data curation, formal analysis, methodology, investigation, visualization, and writing—original draft. Dedeh Maryani: Conceptualization, methodology, supervision, validation, and writing—review and editing. Ika Sartika: Methodology, supervision, validation, interpretation of results, and writing—review and editing. Faria Ruhana: Methodology, validation, interpretation of findings, supervision, and writing—review and editing. All authors contributed to the discussion of the findings, critically reviewed the manuscript, approved the final version, and agreed to be accountable for the content of the published article.

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